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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
UNS GAS, INC. FOR THE ESTABLISHMENT
OF JUST AND REASONABLE RATES AND
CHARGES DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON THE
FAIR VALUE OF THE PROPERTIES OF UNS
GAS, INC. DEVOTED TO ITS OPERATIONS
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. G-04204A-08-0571

NOTICE OF FILING
WITNESS SUMMARIES

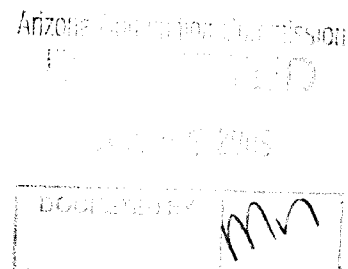
The Utilities Division of the Arizona Corporation Commission ("Staff") hereby provides the
witness summaries for Juan C. Manrique, Dr. Thomas H. Fish, Corky Hanson, Robert Gray, David C.
Parcell, and Rita Beale.

RESPECTFULLY SUBMITTED this 7th day of August, 2009.

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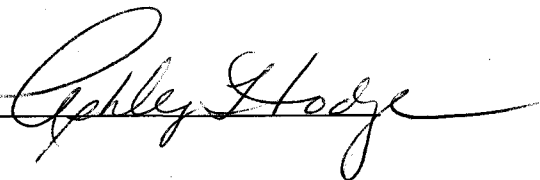
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**TESTIMONY SUMMARY
of JUAN C. MANRIQUE
UNS GAS, INC.
DOCKET NO. G-04204A-08-0571**

On November 7, 2008, UNS Gas, Inc. filed an application with the Commission for rate relief. The purpose of this testimony by Staff witness Juan C. Manrique is to present Staff's position on proposed changes by the Company to its Rules and Regulations. Staff concludes that the changes proposed by UNS Gas, Inc. are prudent and recommends that they be authorized.

SUMMARY OF REVENUE REQUIREMENT, RATE BASE, COST OF SERVICE, AND RATE DESIGN TESTIMONY

THOMAS H. FISH, Ph.D.

ON BEHALF OF COMMISSION STAFF
Docket No. G04204A-08-0571

In his Prepared Testimony Dr. Fish reviewed the Company's filing and its books and records and determined that the Company had an operating income deficiency of \$2,077,601 and recommended that the Company be authorized a base rate increase of \$3,395,423. This recommendation was based on an original cost rate base of \$178,509,369, an RCND rate base of \$324,538,937, and a fair value rate base of \$251,524,153.

Dr. Fish proposed rates designed to recover the proposed base rate increase that were efficient, equitable, and would provide the Company the opportunity to recover its cost of providing service. The Company proposed a phased-in customer charge that, as Dr. Fish pointed out, could be expected to result in a rate structure that was not simple or easy to understand and should not be adopted.

In his Surrebuttal Testimony Dr. Fish addressed the Company's proposed revenue requirement and pro forma adjustments to rate base and operating revenue. He also responded to the Rebuttal Testimony of Company witnesses Hutchens, Grant, Erdwurm, Dukes, and Kissinger.

As a result of his review and analysis for his Surrebuttal Testimony Dr. Fish recommended a revised total operating income of \$13,236,581, with an associated operating income deficiency of \$2,166,054, and a gross revenue requirement of \$3,539,982.

Description	Direct Testimony Pro Forma Adjustment	Surrebuttal Modified Pro Forma Adjustment
Rate Base Pro Forma Adjustment		
ADIT	\$38,994	0
Revenue Pro Forma Adjustments		
Payroll Tax	\$(11,739)	\$(8,780)
Postage	\$(49,594)	\$(49,247)
AGA Dues	\$(1,614)	0
SERP	\$(310,412)	\$(101,021)
Fuel Expense	\$(308,381)	\$(226,352)
Synchronized Interest	\$54,906	0
Bad Debt	\$(186,625)	\$(185,927)
Operating revenue deficiency	\$2,077,601	\$2,166,054
Increase in gross revenue requirement	\$3,395,423	\$3,539,982

**TESTIMONY SUMMARY
of CORKY HANSON
UNS GAS INC.
DOCKET NO. G-04204A-08-0571**

Mr. Hanson's testimony addresses the UNS Gas, Inc., list of capital improvements and new construction to determine whether the projects were used and are useful.

**TESTIMONY SUMMARY
of ROBERT GRAY
UNS GAS INC.
DOCKET NO. G-04204A-08-0571**

My testimony in this proceeding addresses a number of issues related to UNS Gas Inc.' (UNS) purchased gas adjustor (PGA) mechanism. UNS has proposed to change the interest rate applicable to the PGA mechanism's bank balance. UNS has also suggested several possible proposals related to low income service that would implicate the PGA mechanism. My testimony provides Staff's analysis and recommendations regarding the PGA mechanism and related issues. Specifically, my testimony includes the following recommendations:

1. The interest rate applicable to the PGA bank balance should not be changed in this proceeding.
2. To the extent the Commission further extends rate relief to low income customers in this proceeding, the Commission should not accomplish this goal by altering the cost of gas component of rates or allowing recovery of such costs through the PGA mechanism

**TESTIMONY SUMMARY OF DAVID C. PARCELL
ON BEHALF OF UTILITIES DIVISION STAFF
APPLICATION OF UNS GAS
DOCKET NO. G-04204A-08-0571
SUBJECT: COST OF CAPITAL**

My direct testimony provides my estimate of the cost of capital for UNS Gas. My cost of capital recommendation is as follows:

	<u>Percent</u>	<u>Cost</u>	<u>Return</u>
Long-term Debt	50.01%	6.49%	3.25%
Common Equity	<u>49.99%</u>	9.5 – 10.5%	<u>4.75 – 5.25%</u>
Total Capital	100.00%		7.99 – 8.49%
			8.24% Mid-point

The only difference between my 8.24 percent recommendation and the 8.75 percent cost of capital request of UNS Gas is the cost of common equity – I propose a cost of equity of 10.0 percent and UNS Gas requests a cost of equity of 11.0 percent.

My 10.0 percent cost of common equity is derived from my application of three cost of equity models:

Discounted Flow	9.5 – 10.5%
Capital Asset Pricing Model	7.3 – 7.8%
Comparable Earnings	9.5 – 10.5%

My 10.0 percent cost of equity recommendation is the same level of return that the Commission approved for UNS Gas in the Company's last rate proceedings.

My direct testimony also addresses the cost of capital testimony of UNS Gas witness Kentton Grant. I note that Mr. Grant's DCF conclusion of 10.0 percent is nearly identical to the 10.0 percent mid-point of my DCF conclusion. It is the CAPM analyses of Mr. Grant and myself that differ. In my direct testimony, I note that Mr. Grant's CAPM analyses over-state the cost of equity for UNS Gas, primarily as the result of the 7.1 percent risk premium that Mr. Grant uses. My CAPM analyses use a risk premium of 5.32 percent.

Finally, my direct testimony addresses the Fair Value Rate of Return which should be applied to the Fair Value Rate base of UNS Gas. I recommend two alternative FVROR values for UNS Gas – a 6.03 percent value using a zero percent return on the Fair Value Increment (differential between Fair Value Rate Base and Original Cost Rate Base) and 6.37 percent value using a 1.25 percent inflation-adjusted risk-free return.

My surrebuttal testimony addresses the rebuttal testimony of UNS Gas witness Grant. In this, I respond to Mr. Grant's criticisms of my direct testimony on the following topics:

Cost of Common Equity – I continue to maintain that my cost of equity recommendation is appropriate at this time for UNS Gas. It also matches the 10.0 percent ROE approved by the Commission in the Company's last rate case

Fair Value Rate of Return – My FVROR recommendation is the same that I proposed in the last UNS Gas case, which was approved by the Commission.

TESTIMONY SUMMARY
of RITA BEALE
UNS GAS, INC.
DOCKET NO. G-04204A-08-0571

Witness Rita Beale's testimony concerned a prudency review of the gas procurement operations of UNS Gas, Inc. ("UNS Gas"), focusing on the period from January 2006 to June 2008. Ms. Beale provided nine findings and ten recommendations. The ten recommendations are listed below.

In surrebuttal testimony, Ms. Beale provided clarifying testimony with respect to recommendations 1, 2, 5 and 6.

- (1) UNS Gas should conduct a thorough analysis of excess interstate pipeline capacity that could be currently optimized through Asset Management Arrangements (AMA).
- (2) If excess pipeline capacity is available, UNS Gas should have Tucson Electric Power ("TEP"), seek potential counterparties on UNS Gas' behalf, at least annually, to optimize all of its excess capacity on both Transwestern and also on El Paso Pipeline, although not at the expense of incurring a net increase in El Paso charges and penalties.
- (3) UNS Gas should be required to supplement the information filed monthly to the Commission to tie out and support all entries of the Purchased Gas Adjustor Bank Balance, and specifically to include the *UNS Gas Core Market/ System Supply Imbalance Report* which finalizes tie-out of the commodity balances by pipeline.
- (4) To ensure accuracy of the PGA filings, personnel from the Energy Settlements and Billing Department should receive additional training in the operating practices and terminology used by TEP Wholesale Department for gas procurement.
- (5) The *UNS Gas Inc. Price Stabilization Policy* should be changed to require consideration of purchases during the three excluded months of August, September and October. Automatically excluding these months created missed opportunities to buy lower-priced gas during 2006, 2007 and 2008.
- (6) To increase its hedge documentation, UNS Gas should create a record indicating the months that management decides to deviate from a ratable purchasing pattern,¹ even if it as simple as using a checklist denoting 'management decided not to hedge'.
- (7) The *UNS Gas Inc. Price Stabilization Policy* should also be amended for any changes to gas purchasing strategy changes effective September 2008, when TEP took over gas procurement.
- (8) The *UNS Gas Inc. Price Stabilization Policy* must be updated at least annually to reflect current practices and procedures.
- (9) All parties involved with gas procurement should acknowledge the *UNS Gas Inc. Price Stabilization Policy* by signing annually, including Gas Scheduling, Transportation Contracts, Risk Management, and Risk Control; not just the traders.
- (10) A single person should be assigned as the 'policy owner' of the *UNS Gas Inc. Price Stabilization Policy* to ensure, on an annual basis, that the policy is accurate before it is approved by the Corporate Risk Management Committee.

¹ The *UNS Gas Inc. Price Stabilization Policy* essentially sets a non-discretionary portion of forecasted gas load (minimum 45 percent) to be hedged with fixed price instruments at ratable quantities of 1/27th over 27 different months leading up to the physical flow month, excluding August, September and October.